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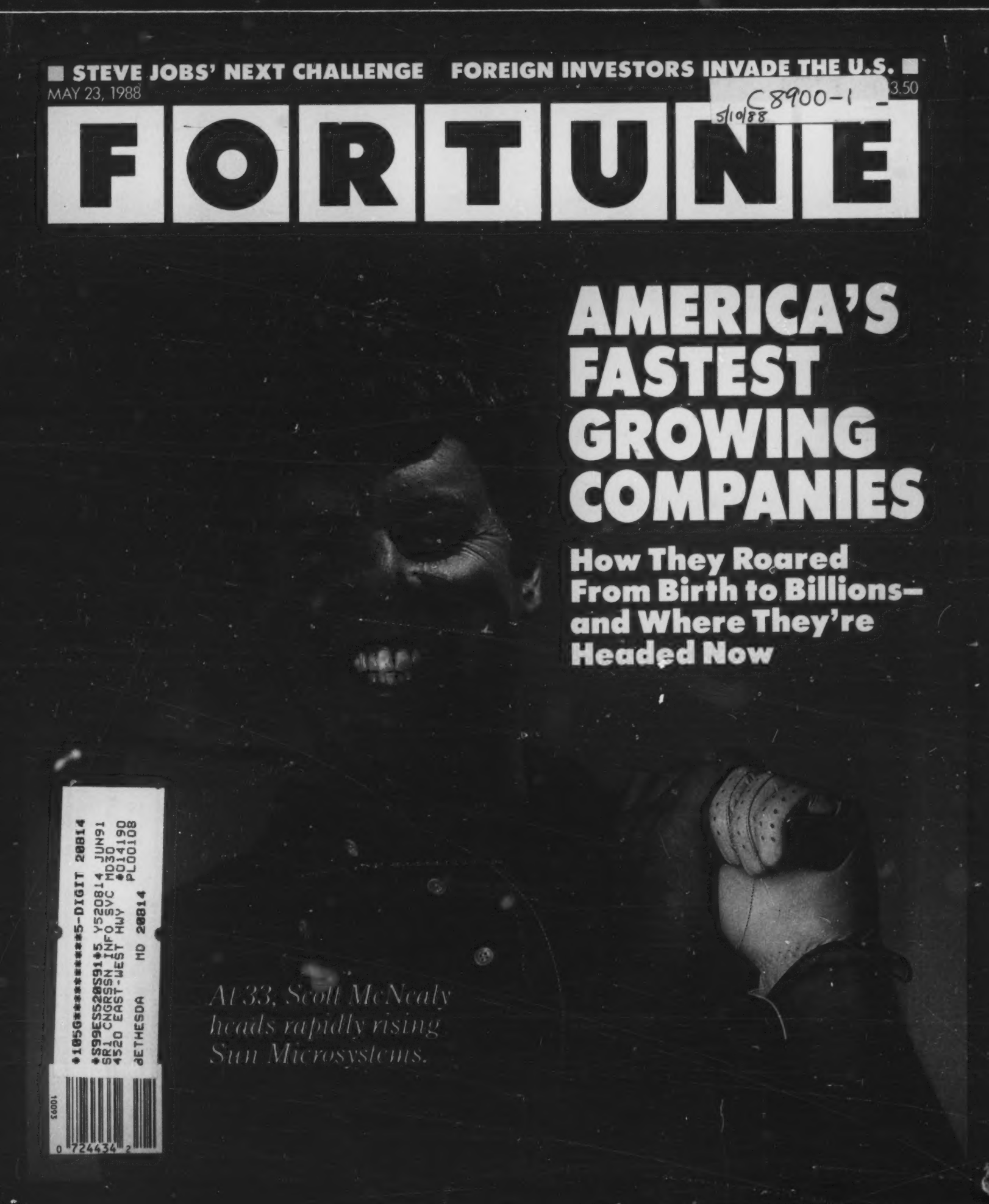
FORTUNE

AMERICA'S FASTEST GROWING COMPANIES

How They Roared From Birth to Billions—and Where They're Headed Now



At 33, Scott McNealy heads rapidly rising Sun Microsystems.

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FORTUNE

"There will always be two or three companies that will have a major share of any market. If you don't grow, you'll die."
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"We're peddling our country like soap powder."
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"Here is a 33-year-old with 50 years' worth of business experience."
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"I wouldn't just walk into the White House and say: 'Make my day.' "
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"It's simple. Professors produce research or are fired."
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"He called me up and yelled and screamed. And I said, 'Aw, shut up.' "
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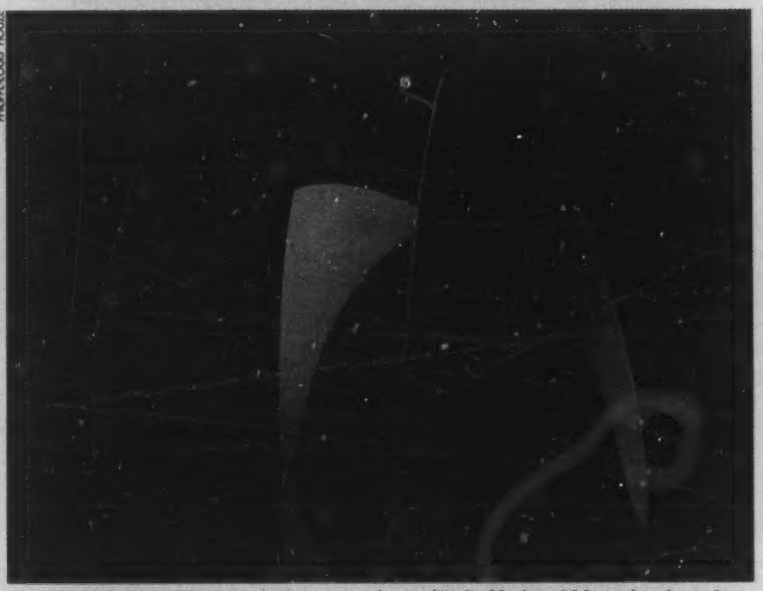
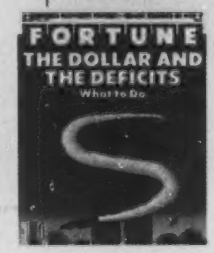


PHILIPPE LOUIS HOUZE

Alexander Calder's Elephant *is the trophy given with the National Magazine Award.*



WE AT FORTUNE like to think that we share a community with our readers, and that you enjoy hearing when something extraordinarily good happens to us. Well, something has. FORTUNE has just won the magazine world's equivalent of the Oscar and the Pulitzer: the 1988 National Magazine Award for General Excellence. We placed first among all magazines with a circulation of 400,000 to one million. The awards are sponsored by the American Society of Magazine Editors and administered by Columbia University's Graduate School of Journalism.

The judges based their decision on three typical issues, whose covers are at left: The Most Successful Capitalist in History (August 31), The Billionaires (October 12), and The Dollar and the Deficits (December 7). In their citation, the judges—all eminent editors and journalism educators—wrote: "FORTUNE has evolved from a solid business publication into a lively, entertaining magazine without any loss of sophistication or authority. Its big packages are well-researched and well-executed. Its design is strong and imaginative. It is a complete magazine—full of substance and ideas, with first-class art work, writing, and reporting." After the awards announcement, one judge remarked: "It's hard to see how a magazine could be any better." We respectfully disagree. We pledge to make FORTUNE better and better and better.

Marshall Loeb

MANAGING EDITOR

FORTUNE (ISSN 0015-8259). Published biweekly, with three issues in October, by Time Inc. Time Inc. principal office: Time & Life Building, Rockefeller Center, New York, NY 10020-1393. N. J. Nicholas Jr., President; Kevin D. Sente, Treasurer; William M. Gutman, Secretary. Subscriptions: U.S., possessions: one year (27 issues) $47.97; Canada: one year (27 issues) $64.53. Second-class postage paid at New York, NY, and at additional mailing offices. Authorized as second-class mail by the Post Office Dept., Ottawa, Canada, and for payment of postage in cash. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, P.O. Box 30604, Tampa, FL 33630-0604 © 1988 Time Inc. All rights reserved. FORTUNE is a registered mark of Time Inc.

AMERICA'S FASTEST-GROWING COMPANIES

They have roared from birth to billions by grabbing hold of major trends and somehow hanging on. Now they must take new risks to keep the growth going.

■ *by Stuart Gannes*

CALL THEM the billion-dollar kids. They are the fastest-growing companies in America's fastest-growing markets. Innovative, opportunistic, above all entrepreneurial, they are romping through the ranks of the FORTUNE 500 like grade-schoolers at a Saturday afternoon picnic. The speed of their ascent is mind-boggling. At the beginning of the decade most members of this Shirley Temple set were mere startups, and a few didn't exist. Suddenly in American business, a childhood fantasy is coming true: You don't have to wait to grow big.

You do have to accomplish quite a few other things that most companies never achieve. In general, the supergrowth champs begin their rise by tapping into broad nationwide or worldwide trends, such as the spread of the personal computer or the female invasion of the work force. They follow those trends—and their market implications—wherever they lead. Then they find ways to survive the turbulence and intense competitive pressures that follow. When the rocket lifts off, a lot of companies can't hang on.

As large corporations get rapidly larger, it's hard to imagine which is tougher—achieving the growth or withstanding it. Consider:

▶ Sun Microsystems of Mountain View, California, after five years in existence, saw sales of its computer workstations more than double last year to $538 million. They'll do $900 million in the fiscal year that ends in June.

▶ In the Boston suburb of Canton, athletic shoemaker Reebok International increased sales 50% to $1.4 billion. The company was in its eighth year.

▶ Compaq Computer in Houston, the youngest superstar of the personal computer boom, saw orders for its most popular model double in three weeks last year. Sales for all of 1987 soared 95% to $1.2 billion.

▶ New York's Liz Claiborne, founded in 1976, leads all competitors in selling fashions to working women professionals, the fastest-growing segment of the labor force. Sales rose 30% last year to $1.1 billion.

More than a score of other U.S. companies have achieved comparable growth in the past five years (see table). Many are retailers that are quickly able to implant a winning concept across the country. But the success stories encompass a wide range of industries and regions.

For many of these companies, being right has proved far more important than being first. You don't have to invent a product if you can figure out how the market will develop and position your company to take advantage of it. Consider how Compaq outdistanced its competition. When IBM unveiled its PC, Compaq was among dozens of startups that jumped into the market with compatible products. The young company became a master of what management writer Peter Drucker calls "creative imitation, or entrepreneurial judo." The advantage of the strategy, says Drucker, is that "by the time the creative imitator moves, the market has been established and the new venture has been accepted. Indeed, there is usually more demand for it than the original innovator can supply."

Compaq's founders quickly hit upon two key tactics to differentiate themselves from the crowd. One was their now famous portable computer, which was an instant hit. Sales of the luggable machines topped $111 million in 12 months. Less known but just as crucial was Compaq's decision to develop strong relationships with computer retailers, then a new and unproven part of the industry. From the start Compaq realized that the retailers were key and that store shelf space would became scarce real estate. Unlike many of its competitors, including Apple and IBM, Compaq never tried to compete with retailers by selling its machines directly to large customers. Compaq offered key dealers exclusive fran-

Toys "R" Us chief Lazarus: "We're in the growth business. What we sell is toys."

That's a Compaq factory behind the foliage. Sales last year rose 95%.

PHOTOGRAPH BY JAY BROUSSEAU

LARRY WILLIAMS—OUTLINE

Under CEO Rod Canion, Compaq made the FORTUNE 500 in record time—four years.

chises and attractive margins and won the distribution battle. Today one of every six personal computers sold by dealers is a Compaq. At 25%, its share of market revenues is second only to IBM's 30%.

Businessland, the fast-growing six-year-old computer retailer based in San Jose, California, was also a latecomer. Like dozens of other entrepreneurs, Businessland cofounder Dave Norman looked at the proliferation of personal computer products and concluded that customers would never be content to shop directly with just one manufacturer. They would want to pick and choose and would want unbiased advice. The insight was hardly unique and Norman knew he would have to offer something more. His answer was to create service-oriented stores geared to small business customers.

While that approach seems obvious now, it was not so clear at the dawn of the personal computer era, when the home market was thought to be king. Even Norman didn't fully understand that his concept was just as appealing to large companies as to small ones. This year, with some 70% of its business coming from FORTUNE 500 customers, Businessland expects revenues to approach $1 billion.

In the booming market for technical workstations, Sun Microsystems executed a brilliant strategy to seize the industry lead. Sun not only started late, in 1982, but it also faced a prosperous and entrenched competitor: Apollo Computer of Chelmsford, Massachusetts. Apollo pioneered workstations—desktop machines connected to a powerful central unit and to each other—and the company made no secret of its intention to dominate the business. Moreover, Sun's founders were well aware that workstation customers were leery of doing business with a startup. The solution: Design and build muscular but inexpensive computers that were compatible with the competition's products. That way a customer could fit Sun's computers into existing installations with virtually no risk.

BUT THE REAL SECRET to Sun's astonishing performance lay in its founders' ability to convert what appeared to be a glaring weakness into a strategic asset. The young company was so financially strapped that it could not afford to design the specialized electronic circuitry considered essential in building a high-performance workstation. Sun's founders realized that in the fast-paced computer industry, custom-built components were becoming obsolete in months. By using off-the-shelf parts, Sun could take advantage of technological breakthroughs as soon as they reached the market. The approach has enabled the company to double the computing speed of its workstations every year.

Sun is an example of what Raymond Miles, dean of the University of California business school at Berkeley, calls the "designer company," in which the presiding genius concentrates on key innovations and contracts out for all sorts of parts and services a more mature company would supply in-house. The designer approach worked for real-life designer Liz Claiborne. She and the three other founders of Liz Claiborne Inc. are all garment industry veterans. They spotted their opportunity in 1976. Says co-founder and vice chairman Jerry Chazen: "We knew we wanted to clothe women in the work force. We saw a niche where no pure player existed. What we didn't know was how many customers were out there." Clothes designers had not fully exploited one of the most profound demographic changes in the postwar era: Women baby-boomers were flooding the labor market.

Liz Claiborne's founders made two other instinctive decisions that stimulated the company's rapid growth. They decided not to build their own manufacturing plants or to field a traveling sales force. Both moves disregarded conventional industry wisdom, yet turned out to be pivotal. Lack of factories increased costs but gave the company more production flexibility than any competitor. The absence of a road force impelled the company to focus on winning orders from large department stores and specialty retailers, whose buyers were accustomed to traveling to New York. With practically no overhead, Liz Claiborne was perfectly positioned for rapid growth when sales took off.

Charles Lazarus saw the same social phenomenon, the working woman, but a different opportunity. He founded Toys "R" Us on the premise that "when Mama went back to work, department stores were dead." He reasoned that working women wanted a store where they could shop for their children quickly, easily, and cheaply. Unlike department stores, which count on the rapid turnover of a limited number of items, Toys "R" Us offers a warehouse full of playthings. Says Lazarus: "We don't want to decide which toys you should buy. We offer everything. And we make it easy for you to toss some crayons and coloring books into your cart." Toys "R" Us operates 350 stores, and sales last year topped $3.1 billion.

Reebok co-founder Paul Fireman experienced a different revelation. "There was a social change going on that nobody had noticed," he says. "We realized that the aerobics craze was for real and that there was a huge untapped market of women seeking both comfort and style. The industry was only focused on jogging shoes. It wasn't

REPORTER ASSOCIATE *Edward Prewitt*

growing with the customer." That realization brought Reebok 20 million customers that its competitors had overlooked. And what customers—instead of one set of sneakers, they often bought four or more colorful pairs of Reeboks. Sales jumped from $13 million in 1983 to $1.4 billion by the end of 1987.

A confluence of social forces turned Sol Price's warehouse club idea into a winner. By the late Seventies mass marketing had made consumers more selective; for many familiar items they didn't want advice, they just wanted a bargain. Then steep inflation made that desire urgent, and the California entrepreneur's Price Club took off.

Its strategy is brutally simple: Provide incredibly low prices, low enough to undersell not only other discounters like K mart and Wal-Mart, but even many wholesale distributors. At huge, no-frills, cash-and-carry warehouses, Price sells cases, cartons, and pallets of products. The aisles are wide enough for stock boys to replenish inventory with forklifts and for shoppers to load their purchases onto flatbed carts. Last year some two million individuals and small businesses paid $25 just for the privilege of shopping at a Price Club. Total sales: $3.3 billion.

SUPERGROWING companies almost inevitably face a challenge that threatens to drag them under: transforming themselves in a few months or years from exuberant startups to corporate giants that need procedures and structure to stay efficient. Unfettered entrepreneurialism was probably crucial to the early success, but channeling it in an organized way eventually becomes just as important. Otherwise, says Richard Cavanagh, dean of Harvard's Kennedy School of Government, these companies "essentially become day-care centers for adults. People Express is a good example. They had great esprit, but they never got it under control."

The opposing risk is that organization and control will crush the unique attributes that propelled the company. In the worst cases, writes Cavanagh in a book he coauthored, *The Winning Performance*, "Opportunities for breakdowns and malfunction multiply. Layers of organization can add drastically to response time. Functional specialization can lead to major problems of coordination and control: Is manufacturing really providing what sales is selling at the time it was promised? Systems may fail to monitor costs that get out of line. Leaders may lose their in-depth understanding of business dynamics or even their fundamental zeal. People throughout the company may lose their motivation and morale, adopting a nine-to-five mentality."

To avoid creeping bureaucracy, the founders of fast-growing companies try to push decision-making down to line managers. That's no problem for retailers like Toys "R" Us, Businessland, and Price, which regard each store as a business unto itself. Says Lazarus of Toys "R" Us: "No matter how big we get, the key unit in this company

25 OF AMERICA'S FASTEST-GROWING LARGE CORPORATIONS

COMPANY*	PRINCIPAL BUSINESS	1983 SALES in millions	1987 SALES in millions	GROWTH RATE (Average per year 1983-87)
Reebok International (Canton, Mass.)	Shoe wholesaling	$13	$1,389	155%
Sun Microsystems (Mountain View, Calif.)	Computer manufacturing	$9	$538	127%
Businessland (San Jose, Calif.)	Computer retailing and wholesaling	$10	$600	127%
Harvard Industries (Farmingdale, N.J.)	Diversified manufacturing	$27	$559	83%
Compaq Computer (Houston, Texas)	Computer manufacturing	$111	$1,224	62%
Seagate Technology (Scotts Valley, Calif.)	Computer accessory manufacturing	$110	$958	54%
Emerson Radio (North Bergen, N.J.)	Electronics wholesaling	$95	$811	54%
Home Depot (Atlanta, Ga.)	Building supply retailing	$256	$1,454	42%
Price Co. (San Diego, Calif.)	General merchandise retailing	$634	$3,323	39%
M.D.C. Holdings (Denver, Colo.)	Homebuilding	$155	$751	37%
Liz Claiborne (New York, N.Y.)	Clothing design and wholesaling	$229	$1,053	36%
Tele-Communications (Englewood, Colo.)	Operating cable TV systems	$347	$1,416	33%
Cray Research (Minneapolis, Minn.)	Computer manufacturing	$170	$687	32%
Wal-Mart Stores (Bentonville, Ark.)	General merchandise retailing	$4,667	$16,065	28%
Integrated Resources (New York, N.Y.)	Selling financial services	$322	$1,078	27%
Limited (Columbus, Ohio)	Clothing retailing and manufacturing	$1,086	$3,527	27%
Federal Express (Memphis, Tenn.)	Package delivery	$1,008	$3,178	26%
Circuit City Stores (Richmond, Va.)	Electronics and appliance retailing	$357	$1,011	23%
Apple Computer (Cupertino, Calif.)	Computer manufacturing	$983	$2,661	22%
Intergraph (Huntsville, Ala.)	Software manufacturing	$252	$641	21%
Telex Corp. (Tulsa, Okla.)	Electronics manufacturing	$325	$822	20%
Tandem Computers (Cupertino, Calif.)	Computer manufacturing	$418	$1,036	20%
Nordstrom (Seattle, Wash.)	Specialty retailing	$788	$1,920	20%
Toys "R" Us (Rochelle Park, N.J.)	Toy retailing	$1,320	$3,137	19%
MCI Communications (Washington, D.C.)	Telecommunications	$1,665	$3,939	19%

*List excludes spinoffs from established companies, and companies that have grown mainly through diversified acquisitions.

is the store. We want our store managers to take the business home in their stomach. We want them to think that their store is the only store in the world. We reward them with bonuses and stock options, and we've made a lot of millionaires."

REEBOK DEALT with its unwieldy size by creating five separate product divisions. The moves came just in time to avert chaos. When the company expanded to market eight different lines of shoes, most of its 2,200 employees had less than two years' experience at Reebok. They needed better supervision—and so did veterans of the freewheeling early days who never worried about anything except what the competition was up to. Co-founder Fireman recalls, "We had to teach our Roman legions how to operate in a time of peace."

Lack of organization nearly led to disaster in 1986, when Reebok jumped into the sportswear business. Practically overnight clothing sales reached $39 million. Says company president C. Joseph LaBonte: "The brand was so damn hot that anything we put on the racks just blew out of there. But we didn't know what we were doing. The product quality was not high. The good news was that our distribution was so bad that we didn't ruin ourselves. Most of the clothes never reached the shelves in time for the holiday sales. We eventually destroyed the rest." LaBonte, who was brought in to clean up the mess, slashed the size of the apparel group by 50%. "Now we are setting up an infrastructure so we don't have to panic all the time," he says.

How much structure does a growing giant need? The contrasting examples of Compaq and Sun make that question hard to answer. Most of the billion-dollar kids have navigated on the fly, imposing organization only when forced by circumstance. Compaq is the remarkable exception. If IBM is the Zeus of the personal computer industry, Compaq is the Pallas Athena, springing to life full-blown in a suit of armor. From the beginning, Compaq's founders—all Texas Instruments veterans—have tried to leave nothing to chance.

Even at the enterprise's birth, says senior vice president of finance John Gribi, Compaq was "a large company in its formative stages, not a small company trying to grow big. We had all our systems in place before day one. You have a clean slate, but you only get one shot at writing on it. Any startup has that advantage. It's just a question of whether you make good use of it. When our market took off, we were positioned to grow with it." Originally called Gateway Technology, the startup hired a San Francisco firm called NameLab to come up with a catchier name. Consultants also designed a corporate logo for all the company's products, literature, and advertising, with colors selected from an international color standard to ensure consistency each time a corporate trademark was printed. With sales running at an annual rate of $1.8 billion, Compaq still uses the accounting system it started with and has not fiddled with its management structure.

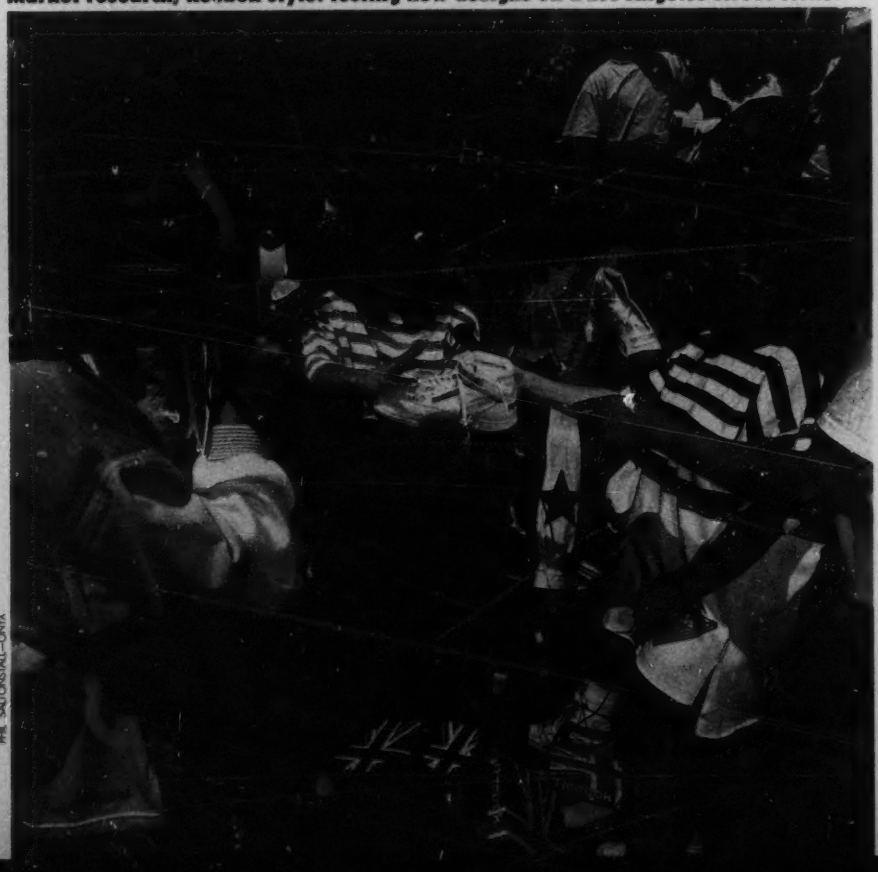
When Compaq executives talk about how they do things, one hears caution, earnestness, relentless rationality. "Once you announce a product, you're committed," says co-founder and chief executive Rod Canion, 43. "You don't want to make any mistakes, so it justifies putting the time and resources into making the best decision possible." Before giving the green light to a new product design, Compaq executives hammer out a consensus on everything from its design and manufacturing requirements to its price and marketing strategies. In the process, says Canion, "you always have disagreements. But at Compaq, instead of just arguing over who is right, we tear down positions to reasons. And when you get to reasons you find facts and assumptions. Then you try to eliminate the assumptions and come to agreement on the facts. Almost always, when you get your team to agree on the facts, you agree on the solutions." Canion says the approach depends on not having big egos. "In companies you usually hear slogans," he says. "From the very beginning at Compaq, what you heard was, 'Doing what makes sense.' "

Surely Compaq's alter ego is hard-charging Sun. Past policies exert no hold over its present. Though the company prospered by using off-the-shelf chips, last year it surprised the computer industry by commissioning its own microprocessor—the heart of all desktop computers. The gamble paid off almost immediately. Sun's new computers are a huge success, and competitors were so impressed with the new microprocessor that a number of them, including AT&T, Xerox, and Unisys, have decided to license it.

Sun co-founder and Chief Executive Scott McNealy is an admirer of Compaq, but he disdains the company's measured approach to decision-making. At Sun, he says, "We're more emotional. We get all fired up. Our adrenaline gets going and we start knocking against walls. Our new microprocessor's success was 90% assumption and 10% fact.

continued

Market research, Reebok style: testing new designs on a Los Angeles street corner



PHIL SALTONSTALL—ONYX

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FUN DAYS AT THE SUN FRAT HOUSE

JOHN PARNELL/SAN JOSE MERCURY NEWS

A software engineer holes out on the par 4 in McNealy's office.

Last April Fool's Day, Scott McNealy, the 33-year-old founder and chief executive of Sun Microsystems, drove to work and found his office transformed into a miniature golf course. The night before, a band of engineer pranksters had torn out the wall behind McNealy's desk, removed the furniture, and covered the floor with fresh sod. The one-hole course they built was a tricky par 4. From an elevated tee, the fairway took a wicked dogleg to the right. Extra hazards included two sand traps and a birdbath, not to mention the glass picture window. Total distance: 12 yards.

McNealy was so flabbergasted that he bogeyed the hole. "I went into the trap, and it took me two shots to reach the green," he explains.

Such outrageous stunts are not only tolerated by Sun's exuberant leader, they are savored. In fact, with his buckteeth and boyish looks, McNealy seems more like the head of a college fraternity than the chief of a FORTUNE 500 company. And freewheeling Sun, nestled in the heart of Silicon Valley, does nothing to dispel the image. In addition to its tradition of yearly April Fool's shenanigans, the company stages weekly dress-down days and throws monthly beer bashes. On Halloween, employees show up for work in gorilla suits. Says McNealy: "We're trying hard to be different from other companies. One of our goals is to provide an environment that people have a blast working in. We like to think of Sun as a billion-dollar startup."

Fair enough. At the age of six, Sun can hardly be called mature. Nor can McNealy, who came to Sun just two years out of business school. But the young chairman's personality is a perfect match for Sun's wide-open culture. Under McNealy's leadership, Sun raced ahead of its competitors to become the leading manufacturer of high-performance technical workstations—the current rage among engineers, scientists, and financial analysts, who crave the extra horsepower these desktop computers offer. For Sun's fiscal 1987, which ended last June, revenues increased 156% to $538 million. And sales in its most recent quarter set a $1-billion-per-year pace.

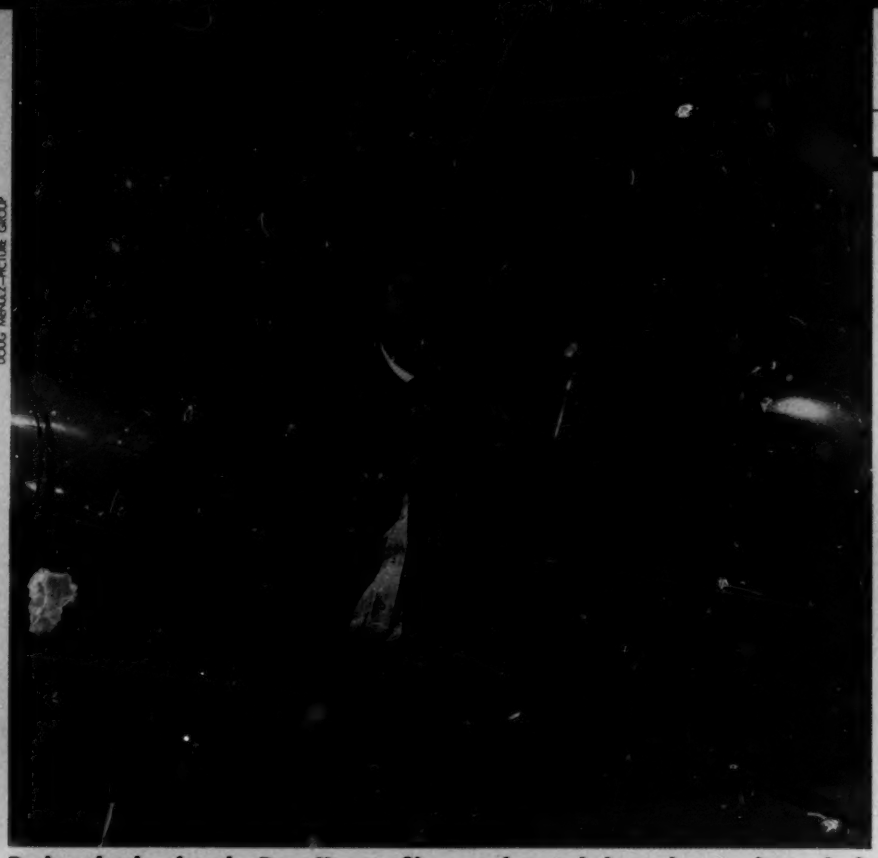
Sun's growth astonishes McNealy as much as anyone else. Raised in Detroit, he is the son of an American Motors vice chairman. McNealy studied economics at Harvard and earned a business degree at Stanford in 1980. One of only three members of his class who sought manufacturing jobs, he joined FMC in Chicago. Within ten months he quit to work for Onyx Systems, a Silicon Valley computer maker. "FMC put me on a strategy team, and I wanted to be a plant manager. I wanted to make something," he recalls. McNealy left Onyx in early 1982 when a business school buddy, the brilliant India-born Vinod Khosla, asked him to help start Sun. Khosla was Sun's first chief executive. McNealy was head of manufacturing. "That meant I built the first 25 Suns by hand," he recalls, "and I had the skinned knuckles to show for it."

McNealy was named Sun's interim president in 1984; the man the company's board of directors had recruited for the job, a veteran executive from Digital Equipment Corp., never fit in with Sun's rambunctious troops, and resigned. A few months later the 30-year-old Khosla decided to retire, and McNealy was appointed interim chairman as well. "At some point, I guess I became more than interim," he says.

WITH 6,500 EMPLOYEES, Sun is no longer a mere startup, and McNealy is growing with his job. Over the past year he has proved himself a tough and forceful executive as he hammered out major deals with such industry giants as AT&T, Xerox, and Unisys. Yet McNealy still relishes his role as Sun's most enthusiastic cheerleader. "I'm not a strategizer at heart," he says. "I'm more focused on cohesion and pulling everybody together. Goals only limit you. We let the market and our ability to have fun set the company's goals."

McNealy's business heroes come from the computer and car industries. They include Kenneth Olsen, founder and chief executive of Digital Equipment, as well as William Hewlett and David Packard, the pair of billionaires who inspired thousands of Silicon Valley entrepreneurs by starting their company with $538 in a garage. "These are guys who stuck with their strategies for a long, long time, all the while protecting the cultures of their corporations," says McNealy. He reserves a special affection for Henry Ford. "By bringing automobiles down the cost curve, Ford really changed the way we live our lives," he says. "The same thing is going to happen with computers."

Still a bachelor, McNealy plays hockey at an indoor rink in San Jose and golf on any course he can find. "My real dream is to play enough golf to make it to the Masters," he jokes. Give his engineers the word and they just might decide to stage that hoax, come next April.



DOUG MENUEZ—PICTURE GROUP

Businessland co-founder Dave Norman flies anywhere to help a salesman close a deal.

It was an emotionally charged issue. How much courage do we have vs. what do the facts say? Facts are available to everybody else, but intuition is proprietary." At times Sun seems incapable of backing away from an opportunity, no matter how risky. In just the past year the company has committed itself to major development projects at the top and bottom of its product line. First the company introduced a high-performance "supercomputing" workstation, and then it unveiled a high-powered personal computer that will compete with Compaq models.

SOMETIMES SUN even tries to recreate that little-company feeling. When the initiative of the startup days began to slacken, McNealy would break up the growing mass of employees. Last year, for example, after a key development project got bogged down, he ordered a team of engineers to clear out of headquarters and finish the job off site. The project got back on schedule. Another division, formed to design a new line of low-cost computers, was set up on the East Coast. Says McNealy: "You have to fire-wall product development groups and give them enough autonomy to do their jobs."

Aware that their progress is exceptional, the founders of fast-growing companies are obsessed with keeping it going. They fret about losing their entrepreneurial magic, losing touch with their markets, or not being able to hire ambitious go-getters like themselves. Most act like owners of small businesses rather than managers of large public corporations. At Businessland, for example, Norman still makes frequent sales calls. "I let all our store managers know I'm available if they need me," he says. Toys "R" Us's Lazarus frequently monitors sales statistics for individual stores on computer screens installed in his office, his home, and his beach house. "I don't ask people how they are doing, I look at the tube. I can see all kinds of things. I look for items not sold. Nine times out of ten it means they are not stocked on the shelves," he explains.

Even the slightest stumble provokes endless agitation and self-doubt. When Liz Claiborne laid an egg with high hemline dresses last fall, Chazen put the blame on himself. "I should have known better," he says. "We didn't recognize conflicting social phenomena. The working woman wants to be stylish, but she also wants to be dignified. It was the biggest boo-boo that I know of in my 35 years in the business." In Compaq's business, new models replace old ones about every nine months. As Canion says, "Your last successful product doesn't mean olive oil. One success is gone almost before it even happened. We never even consider slacking off. You've got to keep running."

Why the obsession with momentum?

MANAGING

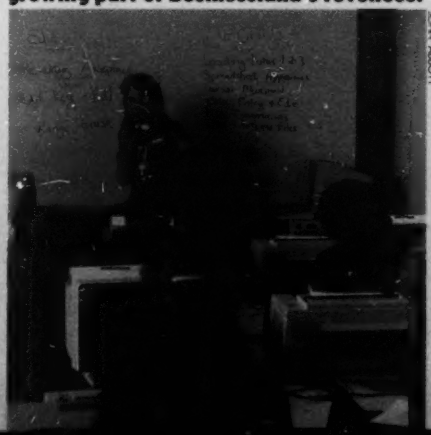
Most of the billion-dollar kids are in fast-growing industries where eventual shakeouts seem inevitable. Says Businessland's Norman: "There will always be two or three companies that will have a major share of any market. If you don't grow, you'll die." Adds Sun's McNealy: "There are only going to be a few major computer companies. A billion dollars in sales isn't big enough. We have to get bigger."

ANOTHER REASON to keep up the growth is that Wall Street loves it. Security analysts are infatuated with the supergrowing companies. Smith Barney's Ilene Goldman rates Sun a top pick because "the company will outpace the industry's growth rate," which she figures at 25% per year. Salomon Brothers' Jack Seibald thinks Price Co. will also grow at a 25% rate. Montgomery Securities and Drexel Burnham are bullish on Reebok. Analysts at Prudential-Bache Securities issued "aggressive purchase" or "accumulate" recommendations in April for Sun, Toys "R" Us, and Businessland. First Boston's Charlie Wolf says that Businessland's stock "is significantly undervalued." Morgan Stanley pushes Compaq. When the growth stops, often the rave reviews do too.

There's apparently another reason to press the chase for supergrowth: It just feels good. Is growth a narcotic? "My wife asked me that same question," says Toys "R" Us President Norman Ricken, who pauses, then blurts, "The market is just out there and it belongs to us." His boss, Charles Lazarus, looks at a map of the U.S. studded with bright red pushpins for each Toys "R" Us location, then adds, "Growth creates problems, yes, but it also eliminates them. The only thing I know how to manage is growth. We're in the growth business. What we sell is toys."

The parents of the other billion-dollar kids

Computer classes and other services are a growing part of Businessland's revenues.



JOHN ABBOTT

could make similar statements, for down deep they all seem to be empire builders. They have developed compelling visions of the future of their industries, and they aim to exploit their leadership positions. Nearly all are convinced that their markets are still largely untapped. Retail chains like Businessland, Toys "R" Us, and Price Club can open stores in new locations. As Compaq and Sun computers get more powerful and easy to use, they become more attractive to larger groups of customers. The hotter the Reebok and Liz Claiborne brand names become, the more kinds of products they can sell.

The supergrowing companies have several other strategies for maintaining their pace. Many are expanding overseas. More than 35% of Sun's revenues already come from exports. Compaq makes its personal computers in Scotland as well as in Houston. Reebok shoes and Liz Claiborne dresses are best sellers in Tokyo. By the end of the year, four Price Clubs will be open in Canada. Toys "R" Us, long established in Canada, now operates in Britain, West Germany, Hong Kong, and Singapore. France is next. Exults Lazarus: "We're getting terrific store sales volumes. It's what the U.S. was like ten years ago."

Companies with plenty of cash look for strategic acquisitions. Reebok is the most active so far. Over the past two years it spent almost $300 million to buy Rockport and Avia, two fast-growing competitors. Fireman says both companies exemplify what he calls the "sense of aliveness" that the Reebok brand stands for. "Reebok is two companies," Fireman explains. "Reebok the brand, and Reebok the corporation, which acquires younger companies that can connect with our image. One of the things Reebok the corporation can't get caught up in is becoming the product. That's what happened to Cadillac. They built the same product, but the customers moved on. Reebok the brand will compete with Avia the brand. I figure that between the two of them, one will win."

Businessland also acquired two smaller competitors, but for much more straightforward reasons. Explains Norman: "Our biggest suppliers, IBM and Apple, were putting moratoriums on the numbers of dealers they were licensing. We needed to make these acquisitions to get authorized IBM and Apple locations. We were buying medallions."

The most popular growth strategy is to diversify into related product lines and services. Liz Claiborne expanded from its initial base of sportswear into dresses and knitwear. The company has also started a surprisingly successful menswear division. Says Chazen: "We discovered that 70% of our women customers also bought clothes for their husbands." Price Clubs will soon be opening pharmacies, as well as photo-processing, optical, and automotive service centers. New from Reebok: golf and bicycling shoes, plus Weeboks for children.

JODI BUREN

Expanding into retailing: Liz Claiborne plans to open 13 First Issue stores by year-end.

IN ADDITION to its stores, Businessland now sells its products through a mail-order catalog. The company is also beefing up its service operation. In the future, says vice chairman and co-founder Enzo Torresi, "We will help you tie your personal computers into your mainframes. The potential for revenues is three times bigger in service than in product sales." Adds Norman: "We'll try anything if it fits our basic strategy." Compaq, the most tightly focused company in the group, is looking into building such peripheral products as printers.

Many of the billion-dollar kids are also committing themselves to ambitious and risky ventures outside their proven lines of expertise. Price Co. is getting into real estate development with plans to build shopping centers in Connecticut, California, and Arizona. Liz Claiborne moved into retailing. "It's a huge opportunity," says Chazen. "We saw retailers like the Limited and the Gap move into manufacturing, and we said, 'We can manufacture better than these guys. Why don't we get into retailing?'" Five new Liz Claiborne stores, called First Issue, are already open, with eight more planned by the end of the year. Toys "R" Us bred Kids "R" Us, a new chain devoted to childrens' clothes. Says the ever ebullient Lazarus: "We planned the store for Mama. She's our customer. All the things she needs in one place. This will be a billion-dollar business in two years. You can go in with confidence. If you look at it that way, business is very easy."

No company's supergrowth can continue for long. If Sun were to grow as fast in the next five years as it did in the past five, it would be bigger than Du Pont. Five years after that it would be half the current size of the U.S. economy. In a more realistic scenario, these companies that have weathered the strains of exceptional growth must soon face a new challenge: surviving the slowdown. For them as for all prodigies, adjusting will be difficult, and as adults some may not fulfill the promise of their adolescence. Win or lose, they are teaching lessons in a new business phenomenon—and inspiring entrepreneurial fantasies that no caveats can diminish. ■

THE SELLING OF AMERICA (CONT'D)

No longer content with IOUs, foreign investors are buying up real U.S. assets. Don't blame them, though. The problem is that America is living beyond its means. ■ *by Jaclyn Fierman*

NEXT TIME an American folk singer belts out the lines "This land is your land, this land is my land," he ought to change his tune—or at least his lyrics. This country is *not* owned exclusively by its citizens, not by a long shot. The U.S. is up for sale, and foreigners are planting flags from California to the New York island. Never has their buying been so dramatic. And never has it made the natives so restless.

BILL BAUERBERG

A Bridgestone engineer *and her Japanese boss inspect a truck tire in LaVergne, Tennessee.*

What's behind the flurry? Having been triply burned by the dollar's fall, the volatile bond market, and Black Monday, foreign investors increasingly prefer to buy things over which they can exert some control. For Americans, that means the land right out from under them, their forests, and their factories. It means icons as sacred as Bloomingdale's and A&P. Even the Brooks Brothers label, beloved by generations of New England preppies, may soon belong to Margaret Thatcher's underwear purveyor, Marks & Spencer.

Enough already, says a wide swath of Americans. Smick Medley & Associates, a public policy advisory firm in Washington, D.C., recently set out to measure the nation's attitude toward foreign investment. A survey of that attitude found it overwhelmingly negative. Nearly 80% of Americans outside of the opinion-making elite would like to limit foreign buying, and 40% want to halt it altogether. "Joe America is nervous and suspicious," says the firm's president, David Smick. "He is worried about losing control over his destiny."

Not an enlightened response. Shutting out foreign shoppers would only treat the symptom, not the problem. The fact is, as long as the U.S. runs a huge trade deficit, foreigners will be stuck with wads of dollars to spend—the dollars the U.S. hands them in exchange for shiploads of Toyotas, Hermès scarves, and Gucci handbags. And for those dollars to have purchasing power, they must ultimately be spent in the U.S.

The gaping federal budget deficit is reason enough to welcome foreign investors. They have already bought a sixth of the U.S. government's debt. By investing in the U.S., they help finance the country's growth, since Americans are not saving enough to satisfy the nation's investment needs (see The Economy).

Foreign investment *comes by land and by air.*

With the intensity of bargain hunters on a bender, foreigners have accumulated U.S. assets worth an estimated $1.5 trillion, nearly a third more than the value of all the assets the U.S. owns abroad. Roughly 80% of that is still financial assets, either bank deposits or portfolio investments in corporate and government securities. But a growing share—now $250 billion worth—represents hard assets, property or so-called direct investments in new or existing businesses.

So quick is their pace that in just a few years foreigners have already come close to catching up to the $298 billion in hard as-

A blimp assembled in North Carolina by British-owned Airship Industries advertises Japan's Fuji film over Manhattan, whose largest landlord is Canadian.

sets overseas that the U.S. spent decades accumulating. "Last year brought the biggest surge I've ever seen," says Gregory Fouch, who keeps count for the U.S. Commerce Department. Foreigners spent over $40 billion on hard assets in the U.S. in 1987, up 60% from 1986.

And these numbers are conservative. Though the U.S. data-gathering net is the world's best, it has its holes. For example, the Commerce Department doesn't keep track of limited partners; that's the way many foreigners make big investments in real estate in the U.S. And untold billions flow noiselessly and illicitly into Florida condominiums and U.S. bank accounts each year as flight capital from abroad.

If the numbers are somewhat fuzzy, the trend is undeniable: Foreigners want *things* American. Their tastes for the tangible extend across the map, from Kentucky racehorses and Texas refineries to New England factories and Sonoma Valley vineyards. They own farmland in all but one state (Rhode Island so far has eluded them) and sizable hunks of Wall Street, both its real estate and the investment banking business. They sign paychecks for three million Americans, including employees of 19 FORTUNE 500 companies.

FOREIGNERS have found virtually every industry enticing, but their passion lately is the country's restructured and newly competitive manufacturing sector. Last year they bought a $16.7 billion hunk of smokestack America, roughly double their previous record, set just the year before. If the current pace of purchasing continues through the rest of this year, according to calculations by Morgan Stanley's investment bankers, the buying of smokestack properties will double yet again. That brings the foreign share of the U.S. manufacturing base to an impressive 10%, nearly twice the level of other major areas of the economy.

Like bees to honey, foreign shoppers are drawn to well-focused, streamlined businesses. The hottest properties currently: low-tech merchandise such as tires, natural gas, and cement—products that cost too much to ship to the U.S. from overseas. Foreigners also gravitate to research-intensive industries like chemicals and pharmaceuticals because it is cheaper to spread development costs over a huge consumer base.

REPORTER ASSOCIATE *Rosalind Klein Berlin*

The assault on the industrial heartland has made many Americans feel vulnerable. Foreign investment is suddenly noisy, front-page news, a far cry from the quiet purchases of yore. Public opinion is deeply divided. Should the U.S. cheer on these acquisitive aliens or kick them out before it's too late? Does their presence force the nation to become more competitive or knock it to its knees? Defenders and detractors in Congress have proposed a range of solutions that reflect the nation's wrenching ambivalence. Their compromise: a section in the embattled trade bill enabling the President to block foreign acquisitions of companies vital to national security.

WHILE AMERICANS may find today's situation unsettling, it is hardly unprecedented. From the time of the Pilgrims to World War I, the U.S. was a debtor nation, a sponge for money that went to build railroads, canals, utilities, and telephone systems. Foreigners sold off their U.S assets after World War II and began to borrow instead, quickly turning the U.S. into the world's largest lender. Pushing overseas, Coca-Cola, General Motors, and other multinationals started piling up the nation's huge stock of foreign assets. It wasn't until this decade that the tables turned again, whipped around by America's towering twin deficits.

Paranoid Americans should take a page from their own past: U.S. multinationals did not colonize Europe, despite widespread fear that they would back in the 1960s. Foreign buyers have a long way to go before they take over the U.S. Their assets may loom large over urban landscapes and some industries, but so far they account for a mere 2% of U.S. corporate profits and only 6% of GNP. Foreigners own 12.5 million acres of U.S. farmland. But that hardly amounts to endless fields of grain; it's less than 1% of the total.

Though there are plenty of exceptions to prove the rule, corporate investors from abroad are generally upstanding folk. They create jobs, both in their companies and for the many businesses that serve them. They pay around $8 billion in corporate taxes and $80 billion in wages, and boost U.S. exports by some $55 billion. They also can leave an indelible mark on managers and workers by introducing technological and operating improvements imported from abroad.

Long aware of the benefits, state and local politicians aggressively seek foreign investment. They battle each other for dollars from abroad, using incentives like tax holidays and new roads as bait. "It's hardball competition, the Blues and the Grays all over again," says Carl Koch, who is Alabama's chief salesman in West Germany. "I'm not above reminding potential buyers about higher labor rates and other problems they're likely to encounter in the North. It's dirty pool, but what the hell."

Tennessee takes a more subtle approach. Already home to 55 Japanese companies, the state published a glossy $49.95 coffeetable book to lure even more. The author, former governor Lamar Alexander, promotes Tennessee as a home away from home. "Tokyo and Nashville are on the same latitude," he writes. "The dogwoods bloom when the cherry blossoms do." Indeed, in certain neighborhoods in Nashville sushi bars are as pervasive as the sound of country music.

True, some people find the foreign touch downright heavy-handed. Tired, as he put it, of behaving like "indentured servants" to "British masters," Richard Lord and five top executives recently stormed out of Lord Geller Federico & Einstein, a New York ad agency acquired last summer by the British agency WPP Group. The sudden exodus by the creators of the award-winning IBM ads, graced by a Charlie Chaplin look-alike, stunned Madison Avenue. It also focused attention on the cultural problems that can arise when foreigners acquire service businesses that depend heavily on talented employees, the most mobile asset of all.

EVEN LOUDER protestations come from those whom foreigners have challenged head on. By 1990, for instance, U.S. auto parts producers may have to contend with some 300 foreign competitors on their turf. Particularly vocal about what she calls "the pinch" is June-Collier Mason, head of National Industries, a Montgomery, Alabama, parts supplier whose annual sales total $110 million. Fighting what really amounts to capitalism

WHO HELPS —AND HAMPERS— FOREIGN INVESTORS
CANADA
Canada took down its KEEP OUT sign with the Investment Canada Act of 1985. But the government is still reluctant to approve deals in [illegible] publishing, and other areas that could compromise Canada's "cultural heritage or national identity."
UNITED STATES
Come one, come all, unless you come from Cambodia, Cuba, Libya, Nicaragua, North Korea, or Vietnam. Buy anything, anywhere, but not more than 25% of a freshwater or coastal shipping enterprise, airline, or broadcast station. Expect heat from the government if you're eyeing a company that affects national security.
MEXICO
The Law to Promote Mexican Investment and Regulate Foreign Investment is a bureaucratic migraine. Don't expect government clearance mañana. And save your breath if your business is oil, nuclear power, mining, electricity, railroads, or communications.
BRAZIL
Best bet: Buy some of Brazil's foreign debt and swap it for an equity stake in a local business. Like the rest of Latin America, Brazil is desperate to cut its debt burden.

FRANCE, GERMANY, & SWITZERLAND
France has loosened up considerably since 1984, and Germany is a breeze. Switzerland has no laws against foreign investment, but as in many European countries, tacit prohibitions abound. Smaller countries don't want their tiny industrial bases swallowed by foreign buyers.
JAPAN
Vague prohibitions against acquisitions that would harm national security or disturb the public order give the government ample room to
BRITAIN
stance: total congeniality.
government can influence
buys what by exerting behind-
-scenes pressure. Scandinavian
ays found that out recently
opped plans to bid for
SOUTH KOREA
The Statute for
Nationals and Ov
essentially a
and high
val; textiles and other
businesses
SOURCE: ARTHUR YOUNG INTERNATIONAL

at its best, she has formed Citizens Against Foreign Control of America, a self-serving organization that prints newsletters and gives lectures. Grouses Mason: "We're peddling our country like soap powder."

The balking will get even worse as the buying binge grows. Robert Lessin, a managing director of Morgan Stanley, expects foreign acquisitions this year to approach $75 billion, almost double last year's level. Major West German corporations alone are sitting on $50 billion of excess cash that can be used for acquisitions, much of which could flow to the U.S. He expects continental Europe to remain at the heart of the action for the rest of the Eighties. Dominating the 1990s will be Japan, Taiwan, and Hong Kong. Asian nations are following the natural progression of foreign buyers: They are slowly switching from passive investments for their financial portfolios to hands-on, tangible ones as they gain confidence in their ability to hold forth in new markets.

Japan has already begun to make waves of tidal proportions. Behind the momentum are its $83 billion current-account surplus and a shortage of domestic buying opportunities. Bonds, once a haven for Japanese investors, are out. Japan's major institutional buyers lost over $10 billion in two years as the yen rose and bond prices fell. Much preferred these days are hard assets. Last year the Japanese bought or built businesses worth $7 billion, bringing the value of their direct investments to $30 billion, triple the level of five years ago.

The Japanese are also hungry for real estate. Last year alone they invested in projects worth an earthshaking $13 billion, according to a study just released by the Los Angeles–based accounting firm Kenneth Leventhal & Co. Their $26 billion of U.S. holdings includes virtually all of Waikiki Beach, over a quarter of the best buildings in downtown Los Angeles, and prime urban landmarks from New York to Seattle. In the

KATHERINE LAMBERT

Auto parts maker *June-Collier Mason preaches xenophobia to a corporate audience.*

Direct Foreign Investment in U.S. by Country . . .

In billions of U.S. dollars

	Total end 1986	1987 Inflow	Total end 1987	% Increase
Britain	$51	$19	$70	37.3%
Netherlands	$43	$9	$52	20.9%
Japan	$23	$7	$30	30.4%
Canada	$18	$1	$19	5.6%
West Germany	$17	*	$17	—
Switzerland	$12	$2	$14	16.7%
Netherlands Antilles	$8	$1	$9	12.5%
France	$7	$1	$9**	17.6%
Other	$30	$1	$30**	—
Total	$209	$41	$250	19.6%

*Less than $500 million. **Numbers are inconsistent due to rounding.

and by Industry

Industry	Amount
Manufacturing	$85
Trade	$45
Petroleum	$36
Real Estate	$24
Insurance	$16
Banking	$13
Finance	$7
Mining	$5
Other	$19
Total	$250

SOURCE: DEPARTMENT OF COMMERCE

biggest hotel deal ever, Japan's Aoki Corp. recently teamed with the Robert M. Bass Group of Texas to buy the Westin hotel chain for $1.5 billion. This year, the study predicts, Japan's U.S. real estate investment could reach a staggering $19 billion.

The Japanese are wild for U.S. real estate in part because land is so dear back home. Prices in downtown Tokyo can run as high as $24,000 a square foot; that's about ten times what prime commercial space sells for in New York City. Starved for opportunities, wealthy Japanese speculators have resorted to ringing doorbells in Honolulu and offering people outrageous sums for their homes. Mayor Frank Fasi decided that residential real estate inflation had gotten so out of hand that he tried—and failed—to pass state legislation that would bar further foreign buying.

Busy as they are, the Japanese are by no means the biggest U.S. shoppers. First prize goes to the British, whose cumulative holdings in the U.S. total $70 billion. They were also the biggest buyers last year, accounting for four of the year's top ten foreign acquisitions. The Netherlands, thanks to ample investments in oil made over many years, has accumulated $52 billion in assets, and is second overall behind the U.K. Japan, with $30 billion minimum, is solidly in third place.

If the devalued dollar had already turned the U.S. into a discount shopping mall, the October stock market crash created a veritable fire sale. The British engineering giant TI Ltd. offered $144 million last September for Detroit's Bundy Corp., which makes metal tubes for cars and refrigerators. The company withdrew the offer after the crash but recently reinstated it—this time for $18 million less. Says a British tycoon: "It's a jolly good time to buy." Indeed. The British announced 98 deals in the U.S. during the first three months of 1988, up from 57 during the same period last year.

Even the French, laggards in the takeover race, are moving with newfound dispatch. "We're now prepared to be woken up early Sunday morning with a phone call telling us to catch the next flight to the U.S. so we can sign a deal that night," says Pierre Vaillaud, executive vice president of the French oil and gas company Total. Last year Total snatched CSX of Houston for $612 million.

In the rush, the gentlemanly manner with which foreigners once approached U.S. targets has all but disappeared. Role models of the new era are fighting men like Sir Gordon White, chairman of the American arm of Britain's Hanson PLC, whose 120 U.S. businesses sell such tokens of Americana as Ball Park franks and Endicott Johnson's sensible shoes. Also active in the ring these days is Canadian heavyweight Robert Campeau, who knocked out R.H. Macy in a 15-round fight for Federated Department Stores. The $6.6 billion purse puts the owner of Ottawa's skyline in charge of a retailing and real estate empire that includes the 16 branches of Bloomingdale's and 549 other stores. Concedes Campeau, whose final bid of $73.50 a share was almost 60% higher than his original offer: "We didn't steal it."

Price is sometimes beside the point. Foreign buyers say they are paying

Top Ten Foreign Acquisitions (1/1/87 to date)

Rank	Transaction	Value in billions of U.S. dollars
1	British Petroleum (Britain) buys the 45% of Standard Oil that it didn't already own	$8.0
2	Campeau Corp. (Canada) acquires Federated Department Stores, one of the largest U.S. retailers	$6.6
3	Unilever (Britain/Netherlands) purchases the U.S. consumer products company Chesebrough-Pond's	$3.1
4	Hoechst (West Germany) acquires Celanese Corp.	$2.9
5	Bridgestone (Japan) buys Firestone Tire & Rubber	$2.6
6	Sony (Japan) purchases CBS Records from CBS	$2.0
7	Imperial Chemical Industries (Britain) acquires Stauffer Chemical from another foreign company, Unilever	$1.7
8	Hanson PLC (Britain) acquires Kidde Inc.	$1.6
9	Aoki Corp. (Japan) and the Robert M. Bass Group purchase Westin Hotel Co. from Allegis Corp.	$1.5
10	Montedison (Italy) buys 38.7% of the plastics company Himont from Hercules, doubling its interest to 77.4%	$1.5

WILLIAM STRODE (2)

This modest establishment, *Buckram Oaks Farm, in the heart of bluegrass country, is the old Kentucky home of Saudi horsebreeder Mahmoud Fustok, who checks out forelegs at an auction.*

for more than just assets. Some are anxious to set up shop in the U.S. before any protectionist barriers lock them out. "Our foresight paid off when television imports were restricted," says Tsutomu Sugiyama, a spokesman for Sony, which broke ground for a U.S. factory in 1972. Other investors are happy to pay a premium for political stability. "The U.S. is a very safe place to invest," says Gilbert de Botton, head of London-based Global Asset Management, which manages $1.6 billion. "You are as comfortable there, if not more so, than you are in your own home."

Companies that need to be close to their customers are quite willing to pay for the privilege. Japan's Bridgestone Tire recently overwhelmed rival bidder Pirelli Co. of Italy when it offered $2.6 billion for Firestone Tire & Rubber. Some of Bridgestone's best clients are the Japanese auto manufacturers, which are gradually shifting operations abroad and by 1992 will produce an estimated two million cars in North America. That's at least eight million tires Bridgestone felt it could not afford to lose. Puncturing all hope Pirelli had of winning, Bridgestone jumped its price 37% above Pirelli's final bid. J. Tomilson Hill, head of mergers and acquisitions at Shearson Lehman Hutton, calls this "the biggest bidding leap I've seen in 15 years in the merger business."

JACKSON HILL—SOUTHERN LIGHTS

Americans *make these laser discs for the RCA label, owned by Germany's Bertelsmann.*

GLOBALLY MINDED investors want to play in the world's biggest market. "We were faced with bowing out of the competition if we didn't get into the U.S. market," says Alain Gomez, CEO of Thomson SA, the French consumer electronics and defense company. Last year Gomez swapped most of his medical electronics business, plus $650 million, for General Electric's RCA division. That made Thomson the leading television producer in the U.S. Says Gomez: "We jumped in where we were absolutely nonexistent."

Americans buy 32% of the world's color television sets and 30% of its chemicals, and generate half the world's ad revenues. No wonder acquirers with world-class pretensions find the place irresistible. "The U.S. is also the cultural heart of the world," says Michael Dornemann, executive vice president of the German media giant Bertelsmann. That fact propelled him back and forth across the Atlantic 80 times in two years in search of acquisitions. "I lost several pounds in the process," he says. But he fattened Bertelsmann into the world's leading media company when he managed to land Doubleday and RCA Records on the same day.

The U.S. still has a lot to teach too, a draw for companies in search of knowledge. Taiwan's Acer Inc., which makes personal computers, wanted to learn about small business computers. So it bought

Counterpoint Computers of San Jose, California, for $20 million last November and saved millions in research. Linking up with universities can also buy know-how. Japanese companies endow 16 chairs at MIT and fund some $2 million in research there. Financing high-tech start-ups is another route: Fully one-quarter of the money in U.S. venture capital funds comes from overseas. To expand its research in genetic and molecular technology, West Germany's Bayer backed three Yale University professors when they set up Molecular Diagnostics Inc. in West Haven, Connecticut.

JAMIE TANAKA

Thai vintner *Domaine St. George grows grapes on 36 acres in Sonoma County.*

Technology transfer flows both ways, of course, and that is ample reason to cheer corporate immigration. Over and over, foreigners have revitalized U.S. companies with new production methods, guiding them back to profitability. When Bertelsmann bought RCA Records last year, the venerable record company was losing some $30 million a year. Dornemann, who heads up Bertelsmann's music group, quickly reorganized the company, doubled investment in the label's recording artists, cut overhead by 17%, and closed a money-losing plant. The result: RCA now turns a $75-million-a-year profit.

IN AN EXTENSIVE STUDY of 250 Japanese-owned companies in the U.S., Columbia University business school professor Martin K. Starr has identified several examples of management superiority. For one thing, the Japanese tend to bring products on line twice as fast as U.S. companies. And while Japanese firms have to rework or discard less than 1% of their products, U.S. manufacturers chuck, on average, 4% of their output. When Japan's Bridgestone took over one of Firestone's failing plants in 1983, workers were producing only 600 tires a day. By adding a few shifts and retraining the work force, Bridgestone now profitably produces 3,100 tires a day.

Like it or not, foreign investment compensates for a multitude of bad economic habits Americans have developed. Among the most egregious: a persistent unwillingness to save and invest at respectable levels. The Japanese sock away some 16.7% of GNP and invest 13% at home. They spend the difference abroad. By contrast, Americans put away only around 2% of GNP but investment in the U.S. runs to 5.5%. How can the U.S. invest more than it saves? You guessed it: with help from overseas. Foreign auto producers alone have invested $5.2 billion in the U.S., a welcome inflow at a time when U.S. auto producers are closing plants and laying off workers.

So trying to boot out the bounty hunters would be a terrible mistake. Until the U.S. learns to do for itself again, it should be grateful for the help. But let it learn quickly: Profligacy inevitably takes a toll. "We are much like a wealthy family that annually sells acreage so that it can sustain a lifestyle unwarranted by its current output," says Warren Buffett, the legendary investor from Omaha. "Until the plantation is gone, it's all pleasure and no pain. In the end, however, the family will have traded the life of an owner for the life of a tenant farmer."

Along the way, the family's standard of living will gradually erode. The government already pays $24 billion in interest to foreigners, for instance. That's more than the federal government spends on schools. And interest rates are higher than they would be if the U.S. did not have to finance a deficit and lure investors to buy that debt. Because of their clout in the U.S. bond market, "foreigners have a say over how many houses get built in this country," says Robert McCauley, a senior economist for the Joint Economic Committee of Congress.

Let the seller beware. Foreigners will have an even greater say as their claims on U.S. assets spiral. But the answer is not to regulate how the world spends its dollars. Instead, the U.S. should rediscover the lost arts of moderation and saving. Buried in its current course is a death wish: Unless the U.S. improves the trade deficit, foreigners will have accumulated enough dollars to buy every publicly traded company in the country in less than 20 years. That's a possibility that should really make the natives jumpy. ■

Who Owns "California" Vineyards

Almadén	Britain
Beaulieu	Britain
Beringer	Switzerland
Buena Vista	West Germany
Callaway	Britain
Château St. Jean	Japan
Château Souverain	Switzerland
Cuvaison	Switzerland
Domaine Chandon	France
Domaine Michel	Switzerland
Domaine Mumm	Canada/France
Domaine St. George	Thailand
Firestone	U.S./Japan
Franciscan	West Germany
Gloria Ferrer	Spain
Inglenook	Britain
Maison Deutz	France/Switzerland
Piper Sonoma	France
Ridge Vineyards	Japan
Roederer U.S.	France
St. Clement	Japan
San Martin Winery	Britain
Simi Winery	France
Sonoma Vineyards	Britain
Sterling	U.S./Canada
Winery Lake	Canada

EUROPE'S BEST BUSINESS SCHOOLS

They aren't pale imitations of Harvard anymore. Students come from all over the world to master international business—and pull down top salaries when they graduate. ■ *by Shawn Tully*

JAYNE BUXTON, 26, was bumping along as a $25,000-a-year media buyer in her hometown of Montreal. Then she went to business school and turned into a hot property. Her best offer among six came from the London branch of a top U.S. consulting firm: $90,000 a year to start, plus a $9,000 reimbursement for part of her tuition and a signing bonus—or "golden hello"—of more than $15,000. In the end the vivacious blonde accepted a slightly less sumptuous package from the London office of Management Analysis Center, a consulting firm founded by professors from Harvard Business School.

Insead is No. 1: *Dean Antonio Borges*

Breathtaking earning power for MBAs is hardly new. What makes Buxton's story different is that her degree came not from Harvard, Stanford, or Wharton, but from the International Management Development Institute, or Imede, a Swiss business school that runs just 67 students through a compact 11-month program. Once pale imitations of Harvard, top European business schools are winning high marks for their strikingly original programs and the fat, U.S.-style salaries their graduates command.

Europe's best schools offer a pedagogic product that their bigger, older U.S. rivals do not. While students and courses at Harvard or Wharton are largely American, European schools have an overwhelmingly international student body and point of view. Students study, socialize, and negotiate with classmates from Spain, India, Japan, and as many as 20 other countries—all in English. From that rich cultural mosaic come managers who understand how foreigners think and global markets work.

FORTUNE has ranked the top five business schools in Europe using a variety of criteria, including entrance standards, quality of faculty, and success in placing graduates in high-paying jobs with top multinational companies. At the head of the class is the school that virtually invented the concept of international business education, Institut Européen d'Administration des Affaires, or Insead, in Fontainebleau, France. Founded in 1959 and still growing, the school is a powerhouse driven by big-name professors lured from leading U.S. schools. Tied for second are London Business School, a top purveyor of talent to the City of London, and Imede, which more than makes up for its small size with its rigorous, academic boot camp–like program and superb roster of students. Next comes Imede's neighbor on Lake Geneva, International Management Institute (IMI), which began as Alcan's in-house management training facility. Fifth place goes to Instituto de Estudios Superiores de la Empresa (IESE), a comer from Barcelona that's growing fast in number of students and prestige.

Several schools that once attracted students mainly from their own countries are becoming more international and may soon challenge these five. Nearly a third of the students in the class of 1988 at Manchester Business School in Britain's industrial heartland are foreigners, almost twice the proportion of non-Americans at Wharton. Rotterdam School of Management, a branch of Holland's prestigious Erasmus University, introduced a popular English-language program three years ago. Two top national business schools, Scuola di Direzione Aziendale-Bocconi of Italy and Institut Supérieur d'Administration of France, will soon introduce business classes taught in English.

The concept has even penetrated the Iron Curtain. In September, the Budapest International Management Center will start a one-year program for Soviet and East European managers. Indiana University will supply the curriculum; West European, Japanese, and American professors will teach in English.

The European schools are developing faculties as cosmopolitan as their student bodies. Professors hail from around the globe—but usually boast Ph.D.s from top U.S. schools. A case in point is Antonio Borges, 38, the associate dean in charge of Insead's MBA program. A native of Portugal, Borges received his Ph.D. in economics from Stanford in 1980, returning to his alma mater as a visiting professor in 1985. Fluent in English, French, and Spanish as well as Portuguese, Borges is a brisk extrovert who played on Portugal's national championship volleyball team.

Picked to head the MBA program in 1986, Borges is boldly expanding the faculty and putting a heavier accent on research. Says

At No. 5, *IESE in sunny Barcelona, graduating students hail from 27 countries, including India, the Philippines, and Japan. The fast-rising school is riding Spain's boom.*

REPORTER ASSOCIATE *Aimery Dunlap Smith*

PHOTOGRAPH BY ENRICO FERORELLI—DOT

he: "We're driving to become one of the top five business schools in the world in research. It's simple. Professors produce research or are fired."

The rise of the international MBA marks a fundamental shift in the way European companies hire managers and chart their careers. In the past executives came mostly from prestigious technical or professional schools. The cream of German management earned Ph.D.s in economics, engineering, or law. In France many of the business elite have degrees from the exalted Ecole Polytechnique, an engineering school that offers not a single course in finance, marketing, or accounting.

The new MBAs are among Europe's shooting stars of business. Sir John Egan, 48, chief executive of automaker Jaguar Ltd., and Iain Vallance, 44, the newly named chairman of British Telecom, picked up their MBAs at London Business School. Javier de la Rosa, 40, an IESE alumnus, is spearheading Kuwait Investment Office's $2 billion investment drive in Spain. Lindsay Owen-Jones, a 42-year-old Englishman from Insead, is No. 2 at France's L'Oréal, the world's largest cosmetics company.

Last year companies recruited some 3,500 MBAs from European schools, about double the number five years ago. That should leave plenty of room for growth: U.S. business absorbs some 67,000 MBAs a year. For recruiters, the quality that sets European MBAs apart is their international dimension. "We are offering international careers," says Al Fletcher, director of personnel for Ford of Europe. "Managers can expect to be moved to several countries, so it's a definite advantage to have an international education."

POWERING THE RISE is an explosion in two sectors with a heavy appetite for MBAs: consulting and financial services. Last year London Business School placed 33 of 84 graduates with financial firms in the City of London. Consulting firms—among them Boston Consulting Group and McKinsey & Co.—descended on Imede last fall, hiring one-quarter of its December graduates.

Some companies aren't ready for the impatient hotshots. "They want to become top managers too quickly," says André Mathieu, head of personnel for French automaker Peugeot. But his view is becoming less common. British electronics producer Thorn EMI hired 30 MBAs last year. German publisher Bertelsmann never dreamed of recruiting an MBA until five years ago; now it hires about half a dozen annually.

For London Business School MBAs, starting pay averages $56,000 a year, above the average at Wharton and roughly equal to Harvard's. The typical Insead grad pulls down more than the Harvard product—$60,000—though that can be partly attributed to the fact that he starts work at 29, two years later than the average Harvard MBA, and has more business experience.

To keep MBAs happy, companies cut a fast track through the corporate bureaucracy. Says Eberhard Pfeuffer, assistant director of personnel at Bertelsmann: "The only way to hold on to MBAs is to move them quickly. A good MBA can expect to start as assistant to a top executive. He could be heading one of our 35 publishing companies five years after joining us."

How the Five International Schools Stack Up

INSEAD
INSTITUT EUROPEEN D'ADMINISTRATION DES AFFAIRES
Fontainebleau, France

Founded 1959

320 students

$16,700 tuition for ten months

$60,000 average starting salary

The Rolls-Royce of European business schools is Insead. Low-slung steel and glass buildings dot the lushly wooded 17-acre campus, once the private hunting ground of French kings, 34 miles from Paris. Between classes, students gather around a crackling fire in the student lounge. Corporate recruiters are big fans, and more than half the students take jobs in a country other than their own.

LBS
LONDON BUSINESS SCHOOL
London, England

Founded 1965

247 students

$14,400[2] tuition for 18 months

$56,000 average starting salary

London Business School is the closest thing in Europe to an American business school. A branch of the prestigious University of London, LBS mixes case studies with in-depth textbook teaching. Housed in a yellow brick complex on Regent's Park, LBS has a strong cachet across town in the City of London, Britain's financial capital. In 1986 and 1987 more than 40% of its graduates took jobs in financial services.

IMEDE
INTERNATIONAL MANAGEMENT DEVELOPMENT INSTITUTE
Lausanne, Switzerland

Founded 1957

67 students

$22,000 tuition for 11 months

$72,000 average starting salary

Small and spartan, Imede is renowned as an academic pressure cooker that transforms engineers and other specialists into cocky general managers in just 11 months. Founded by Nestlé as an in-house management training school staffed with visiting Harvard professors, Imede is independent now, but still has close ties to the company. True to its Harvard roots, Imede leans heavily on case studies.

IMI
INTERNATIONAL MANAGEMENT INSTITUTE
Geneva, Switzerland

Founded 1946

52 students

$24,700 tuition for nine months

$70,000 average starting salary

Situated on a sloping, tree-covered campus across Lake Geneva from Imede, IMI is a no-nonsense training ground for managers much like its neighbor. With just 52 students, IMI is even smaller than Imede and has an even shorter program—a whirlwind nine months. The school has strong industrial roots, and the curriculum includes both case studies and practical projects, all produced under harassing deadlines.

IESE
INSTITUTO DE ESTUDIOS SUPERIORES DE LA EMPRESA
Barcelona, Spain

Founded 1958

412 students

$17,200 tuition for 21 months

$32,000 average starting salary

One of Europe's largest business schools, IESE offers a U.S.-style two-year MBA. As the brainchild of the founder of Opus Dei—the powerful, worldwide organization of lay Catholics—IESE has deep religious roots. Crucifixes hang on classroom walls. Courses in business ethics predate Boesky. But the atmosphere is anything but grave. Sangria is available at the two bars and students read under palm trees.

[1]LBS and Imede are tied for second in Fortune's ranking. [2]Students from outside the European Economic Community pay tuition of $21,800.

CHRISTOPHE COSMACK

From Regent's Park, *London Business School sends grads to the world's financial markets.*

Teaching at the schools is a mix of the Harvard case method and hands-on consulting projects. Insead spends about $500,000 a year developing cases drawn mainly from European companies. Students ponder how France's Alcatel went about absorbing the telecommunications business of onetime rival Thomson, the strategy behind L'Oréal's launch of Fiji perfume, and the task faced by Carlo De Benedetti when he took over Italy's ailing Olivetti—complete with a videotape featuring De Benedetti himself.

All the schools require some kind of consulting work. At Imede, teams of six students spend 4½ months working with companies. By following the advice of one such team, French packaging company Groupe Carnaud cut inventories by $35.7 million a year, boosting profits by $3 million in 1987.

Getting an MBA at Insead, Imede, and IMI takes less than a year. The pace is relentless, forcing many students to work 100 hours a week. Imede packs 990 hours of classroom and workshop teaching into 11 months, almost as much as Harvard spreads over a year and a half. Says a student: "My girlfriends didn't understand why I had to check into a monastery for a year." But most appreciate the grind as good training for high-pressure jobs. Says Graham Wickenden, 32, an Imede alumnus who is now an executive with British retailer Barker & Dobson: "At first you go through hell. Then you learn to work smart and organize your time."

The rich mix of nationalities creates an exciting, sometimes explosive cultural chemistry. "You spend a year managing diversity, which is what international business is all about," says Tidjane Thiam, 25, an Insead student from the Ivory Coast who passed up a chance to go to Wharton. L'Oréal's Lindsay Owen-Jones agrees, "What the U.S. schools are missing is the melting-pot aspect. If I hadn't gone to Insead, I never would have joined a French company."

The European schools favor cosmopolitan candidates with a flair for languages. At Insead, all students must speak French and English. More than half are also fluent in German, Spanish, or another language. Evelyne Hollands, 25, a student at IESE in Barcelona, is typical. A Dutch citizen who graduated from the University of Oregon, she worked in Spain and Brazil, and in addition to Dutch, speaks English, Spanish, German, and French.

THE SCHOOLS RESERVE plenty of places for non-Europeans. In Insead's June 1988 graduating class of 147 students from 25 countries, there are almost as many Americans and Canadians as French. Eleven students are from Japan. Students are divided into nationally mixed groups to maximize diversity. Says David Thompson, 26, an American student at Rotterdam: "There are so many group assignments, I began to feel that if I wanted to go to the bathroom I'd have to take someone with me."

A particularly motley group at Imede this year includes an Australian lawyer, a Pakistani naval architect, a French pharmacist, a Swedish engineer, and a Swiss hotel manager. On each case study, the group must reach consensus, a process that can take hours or days of wrangling. Cultural differences cut deepest in cases involving labor relations. Profit-minded American students don't hesitate to call for quick, severe layoffs. Europeans and Japanese are more concerned with protecting workers. In a recent group discussion at Imede, a hot debate broke out between an American and a Japanese student over whether to fire workers at an Ohio fer-

ROBERT VAN DER HILST

Students for hire *at IMI in Geneva do research for companies for a fee of $15,000 per job.*

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tilizer company plagued by overmanning. The Japanese insisted that management should follow the concept of lifetime employment. "Not in Ohio!" declared the American, Duke Dean, who finally prevailed.

BUT A LITTLE Euro-thinking is rubbing off on Dean too. In a recent case the class was studying, a Dutch company ponders firing unneeded workers at an electronics plant. The problem is that the powerful council of workers, a fixture in Dutch companies, opposes the layoffs, though it cannot stop them. Dean sided with European and Japanese students against layoffs, arguing that the work committee would wallop productivity by sowing labor strife. "A few months ago," Dean says, "I wouldn't have taken that position. Thanks to the European students, you learn how things work here."

MBA candidates learn to listen carefully, probe colleagues for good ideas, and express their own views without antagonizing other members of the group. Americans become more diplomatic. "I have to soften my approach," says Richard Thompson, 31, an Insead student who has worked around the world in the oil services industry. A student from Italy, 30-year-old Nicoletta Calabi, has learned to back up her arguments with careful documentation—not always the Italians' strong suit. "In Italy," she says, "people have a tendency to talk too much and forget about the facts." For Asians an MBA is often a crash course in assertiveness training. "We're too patient," says Hemant Jalan, 31, an Indian student at IMI. "At first I was overwhelmed by the Latins. Now I jump right into the discussions." Akinori Kusuno, a Japanese student at IESE, is working hard to overcome the deferential Japanese style. "We're not talented at expressing ourselves," he says. "In Japan arguing is by nature seen as something bad."

As Europe sweeps away economic barriers on its historic march toward 1992, companies will turn increasingly to managers unfazed by linguistic and cultural boundaries. But Europe's unification is just part of the phenomenon sparking the rise of Europe's MBAs. Markets everywhere are becoming more global. To meet the challenge, U.S. business schools are internationalizing. Says Jeffrey Sheehan, associate dean of Wharton: "As we see it, if businesses and business schools don't have an international perspective, they're going to be left in the dust." At the moment European business schools are leading the pack. ■